

Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-05 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 PA-02 PRS-01 /110 W
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R 281029Z SEP 77
FM AMEMBASSY BERN
TO SECSTATE WASHDC 4987
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL ZURICH

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USMTN ALSO FOR MISSION, USOECD ALSO FOR EMBASSY

PASS TREASURY AND FRB

EO 11652: NA
TAGS: EFIN SZ
SUBJ: SWISS FINANCIAL REVIEW: WEEK OF SEP 18-24

1. SUMMARY: DOLLAR RATE AGAINST SWISS FRANC FELL
ABRUPTLY. GOLD PRICE ROSE. STOCK PRICES REMAINED
FIRM. SWISS NATIONAL BANK PRES LEUTWILER
EXPRESSED HIS VIEWS ON SWISS FINANCIAL SECTOR, CAPITAL
FLOWS TO SWITZERLAND, FOREIGN EXCHANGE MARKET,
SWISS MONETARY POLICY, AND SWISS MEMBERSHIP IN IMF.
PARLIAMANT BEGAN DEBATE ON FEDERAL COUNCIL'S
MEASURES TO REDUCE 1977 BUDGET DEFICIT. END SUMMARY.

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2. FOREIGN EXCHANGE AND GOLD: DOLLAR RATE AGAINST
SWISS FRANC FELL ABRUPTLY TO SF 2.36 IN HECTIC
MARKET. DOLLAR RATE RECOVERED TO SF 2.37 WEDNESDAY
AFTER MASSIVE SNB DOLLAR PURCHASES BUT FELL SEP 22
TO RECORD LOW OF SF 2.3555. DEALERS ATTRIBUTED
DOLLAR DECLINE TO REPORTS OF DISAPPOINTING US
ECONOMIC PERFORMANCE, PARTICULARLY RECORD US

CURRENT ACCOUNT DEFICIT, AND LOWER US INTEREST RATES. DEALERS SAID FRANC APPRECIATED AGAINST MOST CURRENCIES BECAUSE OF RELATIVE IMPROVEMENT IN SWISS ECONOMY AND UNCERTAINTIES IN NEIGHBORING COUNTRIES. GOLD PRICE ROSE IN LIVELY INTL MARKET NEARLY TO 1977 HIGH OF LAST MARCH. DEALERS SAID PRICE RISE REFLECTED INCREASED INVESTOR INTEREST, PARTICULARLY IN US WHERE STOCK MARKET IS IN SLUMP, AND CONCERN OVER INTL ECONOMIC UNCERTAINTIES. MARKET OBSERVERS NOTED THAT IMF AUCTION AND INCREASED SOVIET GOLD SALES HAD BEEN EASILY ABSORBED BUT WARNED THAT MARKET MIGHT EXPERIENCE PRICE FLUCTUATIONS FROM SPECULATIVE ACTIVITIES. RATES FOLLOW:

ITEM/9-19 (OPEN)/9-23 (CLOSE)
SPOT DOLLAR/2.3812/2.36
FORWARD DISCOUNTS (PERCENT PER ANNUM)
ONE MONTH/3.88/4.22
TWO MONTHS/3.81/4.22
THREE MONTHS/3.80/4.14
SIX MONTHS/3.53/3.88
TWELVE MONTHS/3.47/3.69
SF/DM/102.38/101.34
GOLD/148.75/150.75

3. CAPITAL AND MONEY MARKETS: STOCK PRICES REMAINED UNCLASSIFIED

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STRONG DESPITE PROFIT-TAKING. SKA SHARE INDEX SLIPPED 2.5 PERCENT FROM 1977 HIGH OF 240.7 MONDAY TO 240.1 FRIDAY. AVERAGE YIELD CONFEDERATION BONDS WAS STEADY AT 4.00. SNB ANNOUNCED IT WOULD PROVIDE ABUNDANT LIQUIDITY TO HELP BANKS MEET END OF QTR REQUIREMENTS WITH GIR CLEARING ACCOUNTS AT SNB EXPECTED TO RISE SF 4 BILLION TO SF 10.2 BILLION END SEP. SNB RAISED CEILING ON BORROWINGS BY FOREIGNERS ON SWISS CAPITAL MARKET DURING SEP AND OCT TO SF 580 MILLION, COMPARED TO SF 520 MILLION IN JUL AND AUG, OF WHICH SF 500 MILLION RESERVED FOR LOANS MANAGED BY CONSORTIUM OF THREE LARGEST BANKS AND SF 80 MILLION FOR OTHER UNDERWRITING SYNDICATES. HOWEVER, CEILING DOES NOT APPLY TO LOANS BY INTL ORGANIZATIONS SUCH AS WORLD BANK. SNB REPORTED THAT CAPITAL EXPORT CONVERSIONS HAVE PROVIDED WIDER MARGIN OF MANEUVER TO INTERVENE IN FOREIGN EXCHANGE MARKET AND MAINTAIN MARKET LIQUIDITY. PEMEX (PETROLEOS MEXICANOS) ANNOUNCED LOAN OF SF 100 MILLION FOR 10 YEARS AT 5.75 PERCENT INTEREST.

4. SNB VIEWS: SNB PRES LEUTWILER STRESSED FOLLOWING

POINTS IN PRESS INTERVIEW:

A) SWISS FINANCIAL SECTOR: CHIASSO AFFAIR HAS
PRODUCED CALLS FOR REDIMENSIONING. SNB IS CONCERNED
ABOUT AND IS KEEPING CLOSE WATCH OVER PROBLEMS THAT
MIGHT STEM FROM TOO RAPID EXPANSION OF SWISS ROLE AS
FINANCIAL TURNTABLE. SLOWER FINANCIAL SECTOR GROWTH,
AS IN PAST 2 YEARS, MIGHT BE BETTER FOR SWITZERLAND.
IMPROVED COOPERATION WITH LIECHTENSTEIN IN REGARD
TO CAPITAL MOVEMENTS IS LIKELY. EFFECTIVE MEASURES
ARE NEEDED TO PROTECT DEPOSITORS IN CASE OF BANK
FAILURE. HOWEVER, FEDERAL BANKING COMMISSION IS CONCENTRATING
ON IMPROVING ITS BANK AUDITING. PRACTICAL
SYSTEM OF LICENSING FOREIGN EXCHANGE DEALERS IS GOOD
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IDEA BUT WOULD NOT HELP INFLUENCE EXCHANGE RATES.

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B) CAPITAL FLOW: IT WOULD BE DIFFICULT AND IMOPPORTUNE TO INCREASE BARRIERS TO CAPITAL FLOWS; TOTAL RESTRICTUONS ARE IMPOSSIBLE. POLITICAL PROBLEMS OF NEIGHBORING COUNTRIES ARE FELT HERE, BUT NOT NECESSARILY IN FORM OF CAPITAL INFLOWS. NON-RESIDENT FRANC DEPOSITS DECLINED OVER PAST 2 YEARS WHILE FOREIGN EXCHANGE DEPOSITS ROSE. THEREFORE, FRANC RATE FLUCTUATIONS INCREASINGLY REFLECT TRANSACTIONS BETWEEN FOREIGN CURRENCIES VIA SWISS FRANCS. CURRENT ACCOUNT SURPLUS OF SF 7.5 BILLION IS EXPECTED IN 1977 COMPARED TO SF 8.7 BILLION IN 1976. FIRST HALF 1977 CAPITAL EXPORTS WERE SF 8.9 BILLION COMPARED TO SF 10.2 BILLION IN FIRST HALF UNCLASSIFIED

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1976. ALTHOUGH DECLINE WAS EXPECTED, IT IS INCREASINGLY DIFFICULT TO FIND FIRST CLASS FOREIGN BORROWERS. HOWEVER, IN LEUTWILER'S VIEW, RISKS IN BANKS' FOREIGN LOAN EXPOSURE ARE EVENLY SPREAD AND CONCERN ABOUT BANKS' FOREIGN LOAN POSITIONS IS OVERSTATED, PARTICULARLY IN US.

C) EXCHANGE RATES: FOREIGN EXCHANGE MARKET WAS STABLE FOR UNUSUALLY LONG PERIOD IN FIRST HALF 1977. DOLLAR RATE IS AT NEW PLATEAU WHERE IT COULD STAY FOR SEVERAL MONTHS. ALTHOUGH PRESENT DOLLAR RATE IS TOO LOW IN LEUTWILER'S VIEW, THIS RATE MIGHT BE JUSTIFIED IN SIX MONTHS. SNB INTERVENES ON FOREIGN EXCHANGE MARKET MORE THAN MONETARY POLICY CONSIDERATIONS WOULD NORMALLY PERMIT BUT ONLY FOR SHORT DURATIONS TO COUNTER LARGE MARKET FLUCTUATIONS. SNB BOUGHT SF 2.5 BILLION IN DOLLARS DURING JUL AND AUG, COMPARED TO SF 4.6 BILLION IN PREVIOUS SIX MONTHS, WITHOUT DISTORTING MONEY SUPPLY. RULES TO GOVERN FLOATING EXCHANGE RATES ARE STILL LACKING, THOUGH SOME DISTINGUISHED BETWEEN PURE AND MANAGED FLOAT. IF PURE FLOAT IS DESIRED, STATEMENTS WHICH INFLUENCE EXCHANGE RATES SHOULD BE AVOIDED, BECAUSE THAT FORM OF INTERVENTION IS EASIER THAN CURRENCY PURCHASES. STATEMENTS BY US OFFICIALS THIS SUMMEER CAUSED DOLLAR RATE DECLINE. FRANC APPRECIATION HAS BEEN MORE THAN OFFSET IN PAST YEAR BY DIFFERENCE IN FOREIGN AND SWISS INFLATION RATES. SWISS EXPORTERS RECOGNIZE LIMITS TO MARKET INTERVENTIONS AND FIND ADVANTAGE TO STRONGER FRANC IN LOWER IMPORT COSTS AND LESS DEMAND FOR WAGE HIKES.

D) MONETARY POLICY: SNB SHOULD BE ABLE TO KEEP
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1977 MONEY SUPPLY (M1) EXPANSION TO 5 PERCENT ANNUAL GROWTH RATE TARGET, OR AT LEAST WITHIN 4 TO 6 PERCENT RANGE. SNB BOUGHT SF 7.1 BILLION IN FOREIGN EXCHANGE DURING FIRST 8 MONTHS 1977, COMPARED TO SF 11.9 BILLION IN SAME PERIOD 1976, WHILE SF 6.7 BILLION WAS CONVERTED FOR CAPITAL EXPORTS LEAVING SURPLUS OF SF 400 MILLION, COMPARED TO SF 2,100 MILLION IN SAME PERIOD LAST YEAR. THIS CAUSED SWISS MONEY SUPPLY TO EXCEED 1976 GROWTH RATE TARGET. SNB WILL NOT AIM FOR 1978 MONEY SUPPLY GROWTH RATE ABOVE 5 PERCENT IF SWISS ECONOMY CAN BE EXPECTED TO GROW ONLY 2 TO 2.5 PERCENT NEXT YEAR. ALTHOUGH ECONOMY IS IN DEFINITE UPTURN, SHORT TERM OUTLOOK IS STILL UNCERTAIN. EXPORT ACTIVITY COULD DECLINE IF GROWTH OF MOST IMPORTANT INDUSTRIAL COUNTRIES REMAINS SLOW. PRESENT INTL SITUATION DOES NOT REFLECT SPIRIT OF RAMBOUILLET. GREATER COOPERATION IS REQUIRED IN ESTABLISHING AND COORDINATING MONETARY OBJECTIVES, E.G., FIGHTING INFLATION, AS SWISS ARE CURRENTLY DOING WITH WEST GERMANY AND NETHERLANDS.

E) IMF MEMBERSHIP: QUESTION OF SWISS MEMBERSHIP IN IMF AND IBRD APPEARS REGULARLY AMONG GOALS OF SNB AND SWISS GOVT. IN VIEW OF STRONG SWISS COMMITMENT TO IMF SPECIAL CREDIT FACILITIES, IT IS DIFFICULT TO SEE DISTINCTION BETWEEN ACTIVITIES OF MEMBERS AND NON-MEMBERS. LEUTWILER SAID IT IS NOT IN SWISS INTEREST TO JOIN IF SWISS WOULD NOT HAVE REP ON IMF GOVERNING COUNCIL. LEUTWILER WOULD NOT SAY SWISS WILL NEVER JOIN, BUT HE SAW NO DISADVANTAGE FROM STAYING OUT. SWISS HAVE VOICE ON INTL MONETARY AFFAIRS IN MEETINGS OF GOVERNORS OF CENTRAL BANKS AT BANK FOR INTL SETTLEMENTS.

5. FEDERAL FINANCES: PARLIAMENT BEGAN DEBATE ON FEDERAL COUNCIL PROPOSALS TO REDUCE EXPECTED 1978
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BUDGET DEFICIT (BERN 3975). THE MEASURES PASSED UPPER HOUSE, WHICH EXEMPTED COMMERCIAL PAPER OF UP TO 3 MONTHS DURATION FROM 50 PERCENT INCREASED STAMPT TAX TO SOFTEN IMPACT ON FINANCIAL OPERATIONS, AND NEXT GO TO LOWER HOUSE. PARLIAMENT GAVE FINAL

APPROVAL TO SF 530 MILLION IN APPROPRIATIONS FOR
1977 MILITARY ARMAMENTS PROCUREMENT, WHICH INCLUDES
SF 395 MILLION FOR US-MADE DRAGON ANTI-TANK MISSILE,
PLUS ADDITIONAL SF 400 MILLION FOR LAND ACQUISITION
AND BUILDING.
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Message Attributes

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